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Ukraine

Retail Food Sector

Report

2005

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Report Highlights:
Ukraine is the second largest European country with a population of 47 million people. Rapid per capita income growth has driven retail trade growth rates in food products to $4.3 billion in 2003. Retail chains are also expanding rapidly. American products can be successful in some niche markets in Ukraine: high-value, premium-class products (high-quality meat products, expensive seafood, alcoholic beverages) are consumed by a population with increasing incomes. Also experiencing significant growth are relatively low-priced specialty food products (special infant dairy food, diabetic foods), inexpensive food for young people, products associated with a "Western" lifestyle (popcorn, instant beverages), semi-prepared food, ingredients for preparing different national cuisine dishes, and microwaveable products.

Includes PSD Changes: No
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SECTION I. MARKET SUMMARY

Retail trade in food products has developed rapidly over the past few years in Ukraine because of good economic performance and strong income growth rates. GDP grew by 9.6% in 2003 totaling UAH 267 billion ($50.3 billion) and 12.4% in 2004 totaling UAH 345 billion ($65.7 billion). The number of middle and high-income consumers has also increased (the population's income grew to UAH 216 billion ($41 billion) in 2003 and UAH 270 ($51 billion) in 2004. Globalization of world trade and major shifts in consumers' preferences are also contributing factors. Presently, more people are traveling abroad and are influenced through the mass media and advertising.

According to some estimates, food product retail trade in 2003 reached $4.3 billion (a 19.5% increase over the previous year) and $4.7 billion in 2004. Other retail trade assessments are even higher because they incorporate street-level retail trade and sales of meat, fruits and vegetables in open-air markets (bazaars). All studies reveal the same conclusion; retail trade growth in Ukraine has led to the development and expansion of local food retail chains and the entry of foreign retail giants. Approximately 7% of total investment in 2005 went into the retail sector. The annual retail turnover in food products reached $89 per capita in 2003 (20% growth over 2002). Other studies have this index as high as $274 per capita.

Table 1. Selected Trade Indicators, 1999-2003

Index	1999	2000	2001	2002	2003
Retail Trade Volume (US$ million**) Source: State Statistics Committee of Ukraine	2,917.2	2,744.5	3,227.3	3,579.9	4,276.7
Retail Trade Volume (US$ million**) Source: Derzhzovnishinform*	n.a.	n.a.	3,811.5	4,365.1	6,102.7
Consumer price index for food products, %	126.2	128.4	107.9	97.7	110.9

**Estimates of the Derzhzovnishinform Center are based on production of food products, their imports, exports, and consumption by food industry enterprise as well as direct sales to consumers. Estimates do not include sales of unofficially traded products.*
***Official yearly average NBU hryvnya-to-dollar rate was used to convert Ukrainian hryvnyas (UAH) to U.S. dollars.*

According to the largest retailers, the structure of food products sold by product origin is as follows: Ukrainian products – 82%, imported products – 18%. The share of imported goods seems to be relatively low, but if unofficial trade is included the number increases significantly. Larger cities and densely populated urban areas account for the largest share of retail trade (Kiev city is a high as 17% of the market, Dnipropetrivsk region – approximately 9%, Donetsk region – 8%, Kharkiv region – 8%, and Lviv region – 6%).

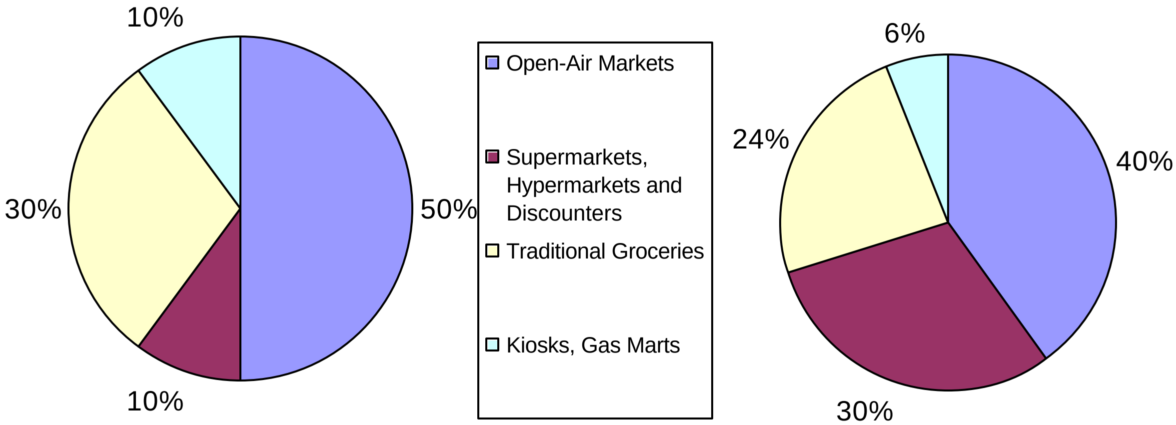
Table 2. Pattern of Food Product Sales in Retail Stores, (US$ million)

Index	1999		2000		2001		2002		2003	
	US$ million	%	US$ million	%	US$ million	%	US$ million	%	US$ million	%
Domestically produced goods*	2,693	92.3	2,558	93.2	3,018	93.5	3,351	93.6	3,956	92.5
Imported items*	225	7.7	187	6.8	210	6.5	229	6.4	321	7.5
Domestically produced goods**	-	-	-	-	3,369	88.4	3,918	89.8	5,485	89.9
Imported items**	-	-	-	-	443	11.6	447	10.2	618	10.1

* *Source: State Statistics Committee of Ukraine*
** *Derzhzovnishinform Estimates*

Ukraine's food product retail sector is still developing and has good growth prospects. Despite the growing number of supermarkets, open-air markets remain the most popular retail outlet. Thus, in Kiev, which accounts for almost 1/5 of the food-product market and where 1/6 of the country's hypermarkets and supermarkets are located, open-air markets still accounted for 30-35% of food-product sales in 2002 and 90-95% of fresh meat sales in 2003. Open-air outlets supplied approximately 50% of the retail market for the entire country for the same period.

Ukraine's Retail Trade Structure 2002 vs. 2003



Source: Industry Expert Estimates

Supermarket chains in Ukraine are developing rapidly. They continue to increase their share of retail trade and are driving out previously popular forms of retail trade. Despite the current small share, hyper- and supermarkets are expected to capture 40% of the market in the near term, convenience stores/discounters will capture 10-15%, open-air markets 30%, traditional stores (groceries, over-the-counter trade stores) 10-15%, and other outlets 10%.

"La Furshet", the largest and fastest growing supermarket chain, is a good example of how rapidly the retail trade is growing in Ukraine. La Furshet had 15 stores in 2002, 22 stores in 2003, 30 stores in 2004 and is expected to have 50 stores by the end of 2005. Nearly 550 mini-, super-, and hypermarkets were operational in Ukraine in 2001. Their numbers increased to approximately 616 stores in 2002, and exceeded 690 stores in 2003. In 2004, an average retail outlet was expected to recover its investment within 3 to 5 years in Ukraine, compared to 10 to 15 years in EU countries.

Many Ukrainian supermarkets launched consumer loyalty programs to encourage frequent buyers, low-income consumers or retirees. Some (La Furshet http://furshet.ua/ and Megamarket http://www.megamarket.ua) offer on-line supermarket sales with office or home deliveries. Other outlets practice telephone shopping.

The largest retail chains have their own kitchens, mini-bakeries and processing shops. These departments allow chain stores to offer customers a variety of ready-made food products and semi-finished products. This includes various ready-made salads, bakery products, packaged meat cuts, fish and frozen semi-finished products. Supermarkets are also used as anchors in trade centers and shopping malls. In Ukraine, shopping malls usually include boutiques, movie theaters, cafes, and restaurants (often with food courts).

Ukraine is one of the most populated countries in Europe. A steady increase in personal income over the past few years has driven the rapid expansion of the retail sector (an increase of 24.3% in 2001, 18.1% in 2002, and 16.5% in 2003). During the past 3 years, established large European retailers (Metro, Billa, and Spar) entered the Ukrainian market. Usually, retailers enter markets located in or around big urban centers with subsequent expansion into smaller cities and towns. Although local supermarket chains still outpace foreign companies in terms of the number of outlets, trade outlets of foreign companies have a much better logistical base, tested market-entry strategies, excellent personnel-training techniques, well-established connections to suppliers and solid financial support. Well-established and quickly growing local retail networks are attractive to foreign investors for takeovers. The A. T. Kearney retail trade development rating gives Ukraine 11 points for 2004 and includes Ukraine on the list of countries where international retailers are recommended to do business.

Advantages and Problems for US Exporters

Advantages	**Problems**
Population of 47.4 million people, growing number of consumers who can afford purchasing high-quality food products	Despite income growth, majority of the population continues to save money on food items.
Demand for higher quality food products is growing	Many customers have a prejudice against imported food products due to the boom in imported low-quality food products in the early 1990's.
Ukraine's retail sector is on the rise, which creates a number of opportunities for perspective U.S. exporters.	Frequently changing trade legislation. Import tariffs remain very high.
Urban life styles are changing. Increase in demand for semi-finished and ready-to-cook products	Local manufacturers are producing ready-to-cook products which are highly competitive with similar imported goods.
American-made food and drinks are still new for the majority of the population, but rather popular among the younger generation.	Lack of knowledge or tradition for American products.
Retailers are constantly in a search of new and innovative products in order to attract customers	High competition with suppliers of similar products from Russia and European Union
Existence of large importers who are experienced importers of food products.	High level of corruption

SECTION II. ROAD MAP FOR MARKET ENTRY

ENTRY STRATEGY

Below are some basic strategy trends for products entering the Ukrainian market:

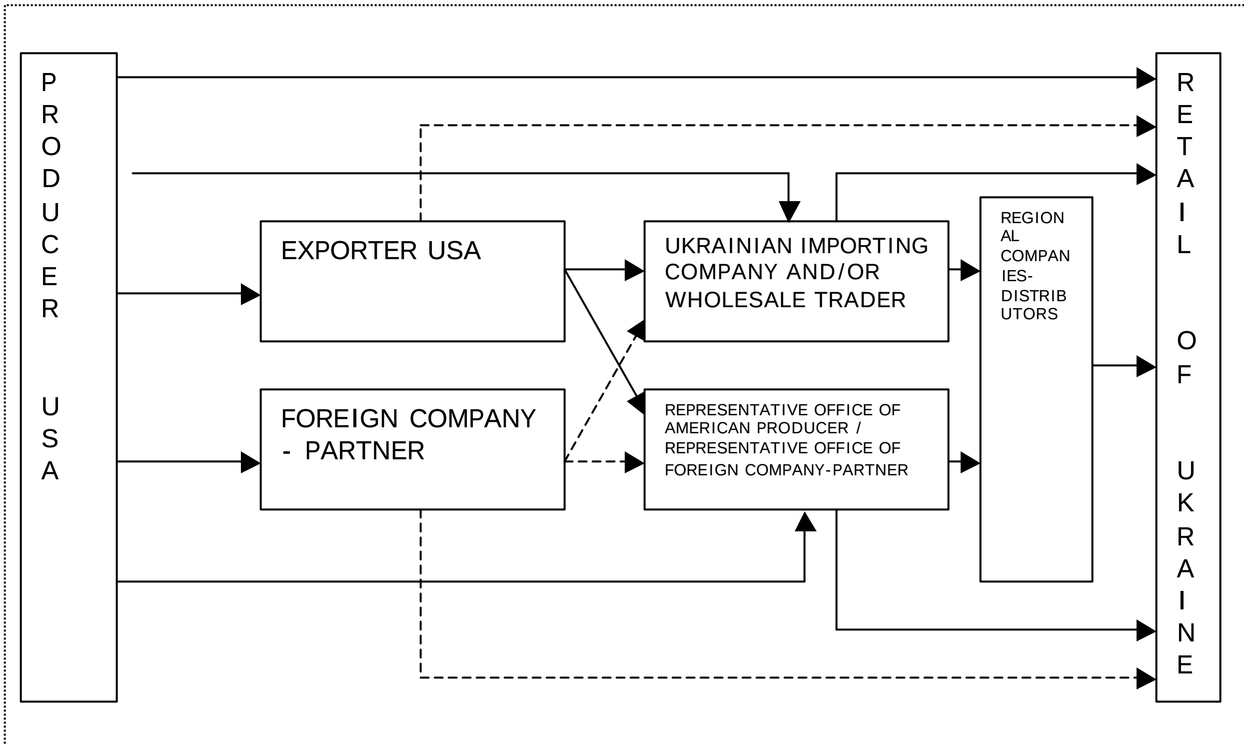
- A perspective entrant is advised to consult an established marketing research firm that specializes in financial and statistical information.
- Participation in a food-product trade show in Ukraine is advisable. These events can provide a market snapshot, as well as to identify perspective importers and wholesale vendors. Usually only large companies participate in these shows.
- Meet with representatives of state regulatory bodies in order to obtain additional information on import requirements. Also use relevant embassies, consultants and foreign partner companies who are already doing business in Ukraine.
- In order to make the first in country delivery, usually a large local import company is chosen. The company should be established, have a good reputation and experience in customs clearance. They should have storage facilities and a developed distribution network. Also advised is to ensure that the company has worked with Western suppliers in the past and has experience in importing regular supplies of food products into Ukraine. Western companies that strive to arrange direct food supplies without Ukrainian mediators often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, has established trade ties and contacts in state structures that are useful when entering the Ukrainian market. Ukraine remains a country where personal contacts play an important role in business.
- If a foreign company decides to open a representative office, it should be located in Kiev or another large city.
- Ukrainian import duty rates for food products are very uneven. Import duties for unprocessed goods or goods in large packages are often zero. These commodities

require only minimal processing (frying, adding salt, packaging for retail trade). However, duties for packaged and ready for sale products are quite high. Many companies test the market with finished products and then look to process/package locally if the product is successful. This is a way to circumvent or reduce custom clearance costs. Many importers package tea, muesli, chocolates, and chips; roasted nuts and coffee beans in Ukraine. Packaging or production is often organized in Russia or other Commonwealth of Independent States (CIS) countries. The commodities are then imported from these countries under Free Trade Agreements (FTA). FTAs are in force for 11 CIS member states. However, a potential importer should weight transportation and certification costs.

- Supermarket entry costs vary greatly in Ukraine. Charges include a company entrance fee, a shelf fee for each commodity, designated shelf fee, and a fee for positioning a pallet in a sales area. An entrance fee, designated shelves and pallet fee would amount to approximately $100-250 each. Some payments are made once, others are charged by the retailer on a monthly basis. The exporter should be ready to pay the retailer a percentage of the trade turnover (sales of the good or per 1 meter of shelf space). These payments are also made on a monthly, quarterly or annual basis. There will also be some costs associated with retail chain marketing, advertising booklets and in-store promotions. The total monthly sum can range between $1000 and $1500 per commodity per store. All fees are negotiable.

MARKET STRUCTURE

Food Retail Distribution Channels



Distribution Channels

The vast majority of importers/distributors have offices in Kiev or in the port of Odessa. Portside offices are often used solely for customs clearance procedures. Upon arrival at the port, the product is custom cleared and then shipped to Kiev. From Kiev products are distributed to other regions or directly to regional distributors. Some importing companies purchase goods on CIP Kiev terms and customs clear the products in Kiev. Truck deliveries from Western European ports are much more expensive and rarely practiced. Typically large importers supply a number of commodities to Ukraine. Some companies have exclusive contracts for distribution of food products in Ukraine. In some cases several distributors supply the same products and are able to coexist in the market. Often Ukrainian representative offices agree to be the exclusive supplier of a product for certain regional distributors. Retailers often agree to a direct supply contract with a representative office when it is unprofitable for a regional distributor to supply a retailer.

Types of Retailers

The State Statistics Committee of Ukraine reported the number of retail trade companies selling food products reached 10,095 in 2003 (4.3% less than in 2002). Out of the 10,095, approximately 950 companies operate specialized food stores and 9,145 non-specialized outlets. The total number of food outlets dropped to 38,422, 8% less than the previous year. Concomitantly, the average floor space of a store increased by 6.4% in 2001 to 88.4 square meters, decreased in 2002 to 87.5 square meters, and increased in 2003 to 93.1 square meters. Many small food shops have gone out of business.

Table 3. Number of Retail Trade Food-Product Companies by Type of Outlet

Indicator	2001		2002		2003	
	Number	Floor space, (1000 sq.m)	Number	Floor space, (1000 sq.m)	Number	Floor space, (1000 sq.m)
Total	47,330	4,185	41,754	3,655	38,422	3,578
Food stores with expanded stock list*	-	-	37,615	3,386	34,286	3,294
Including:						
Groceries, supermarkets	-	-	596	447	652	536
Hypermarkets	-	-	20	72	38	148
Specialized	-	-	4,139	270	4,136	285
Self service	2,772*	376*	1,548	352,800	1,563	490,161

**Including mixed stores (with different assortments)*
Source: State Statistics Committee of Ukraine

Experts estimate the market share of super- and hypermarkets at less than 30%, but the rate is quickly growing. Traditional retailers in big cities are loosing their clientele due to new big retailers. Open-air markets and kiosks cannot compete due to lower quality products (a major sales outlet for uncertified and counterfeit goods), while traditional grocery stores cannot offer the wide assortment of products or the lowest prices. Supermarkets are not only driving open-air wholesale markets and Soviet-type stores out of business, but they are forcing the ones that survive to modernize equipment and marketing methods.

Supermarkets & Hypermarkets

The majority of retail outlets were privatized during the first wave of Ukrainian privatization in the early 1990's. Large trade centers with a self-service system (the Soviet counterpart to supermarkets – self-service store and trade centers) build in the Soviet Union ceased to exist after the first year of Ukraine's independence. Later, many food stores were purchased by private individuals or business establishments. In order to survive, the overwhelming majority of these stores traded in both industrial goods and food products.

The stabilization of the national economy resulted in some restructuring of the retail trade. The formation of a large group of consumers that began procuring relatively large volumes of food products, a major shift in life style, the recovery of the Ukrainian food industry and stabilization of imports, all contributed to the creation and success of supermarket and hypermarket development. The first domestic supermarket chain was established to meet this newly created demand. These stores matched the western definition of a supermarket in terms of floor space, assortment of products and quality of service.

According to the State Statistics Committee, there were 38 hypermarkets in Ukraine in 2003, an increase of 20 from the previous year. The floor space of an average Ukrainian hypermarket was 3,895 square meters. The number of supermarkets (universal self-service stores) increased by 9% to 56 in 2003. The average floor space of a Ukrainian supermarket totaled 822 square meters. The first Ukrainian mall – "Karavan" (which is still classified as a hypermarket) was built in 2004 with a total area of 13,000 square meters. According to Karavan's management, they built the hypermarket in order to sell it to international operators, (supposedly to Auchan or Tesco), should they enter the Ukrainian market. The rather small floor space of many Ukrainian supermarkets is a result of limited investment resources and limited availability of adequate buildings that are suitable for trade outlets. Only Western investors and very few Ukrainian companies are capable of full-scale construction projects.

According to supermarket owners, smaller stores' product lists include some 25–30,000 items, with about 80-90% being Ukrainian origin. Dairy and fish products, meat, bakery and spirits are widely represented. Supermarkets often cut margins significantly to attract customers. The largest chain supermarkets source from 1,000 different suppliers represented by large wholesale companies, producers and importers. Local chains have adopted practices and standards of foreign retail chains, including establishment of production quality control departments and distribution centers. Many supermarkets have 24 hour service.

The foreign chains Billa (Austria), Metro Cash and Carry (Germany), Perekrestok (Russia) and SPAR (the Netherlands – sold to Russian Perekrestok in 2005) entered the Ukrainian market during 2001-2005. Initially they opened outlets in Kiev but later began to expand to other large cities. Russian Pyaterochka (with Karusel brand) is also planning to open supermarkets chain by mid 2006. Two other international giants - Tesco (Great Britain) and Carrefour (France) are carrying out market research in Ukraine. Domestic retail chains are also developing rapidly and include: Fozzy discounters and Silpo supermarkets (Fozzy Group), La Furshet supermarkets (Garantiya-Trade LLC.), Velyka Kishenya supermarkets (Quiza-Trade LLC.), and ATB supermarkets (ABT Corp.). Experts estimate that the growth of the number of new sales outlets increased approximately 200% in 2002–2003.

Several factors have contributed to the rapid success of hypermarkets and supermarkets in Ukraine. First, retail chains guarantee higher quality goods due to selection of suppliers and quality control. Second, the majority of chains offer attractive prices through improved logistics and substantial supplier discounts in return for guaranteed large procurements. This has allowed supermarkets to attract new customers away from traditional wholesale open-air markets and grocery stores. Third, supermarkets provide a more comfortable shopping experience (free parking, heating, etc.), additional discounts for regular customers (discount cards), and additional services (home deliveries, Internet shopping, etc.).

Because the market is expanding so rapidly and so many retail niche markets exist, local retail chains are able to compete effectively with foreign companies. In particular, as reported by the State Statistics Committee of Ukraine, there were 123 such trade companies (109 supermarkets and 14 hypermarkets) in 2003 in Kiev. Trade analysts estimate that Kiev can sustain 350–400 supermarkets. Today, Kiev accounts for approximately one-fifth of all retail trade in food products. Operators agree that the demand for larger stores will continue to develop. Currently, supermarkets compete with traditional open-air markets more than with each other. The latest trend is to place supermarkets in shopping malls, which reduces construction costs and attracts additional customers.

The supermarket industry has developed in different ways in Ukraine. La Furshet purchased former Soviet self-service stores and remodels them into modern supermarkets. They are also expanding rapidly into other regions of Ukraine. As of 2004, the company has 30 supermarkets, with stores in Cherkassy, Kirovohrad, Lutsk, Poltava, Simferopol, and Odesa. Other companies are opening new stores and buying already existing chains (Velyka Kishenya purchased Begemot supermarkets in 2004). The consolidation process greatly intensified in 2005. Euromarkt, Da! Market, TikoMarket, Eizhachok, Spar-Ukraine, Vam, Maxi and Jaroslavna have all seized to exist. Other companies (such as MegaMarket) in order to survive concentrate on service quality and product stock lists. Table 4 lists major retail operators in Ukraine.

Table 4. Hypermarket and Supermarket Chains in Ukraine (3 or More Outlets)

Retailer Name and Outlet Type	Ownership	Sales in 2004* (U.S. $ million)	No. of outlets as of 2004 (as of mid-2005)	Locations	Purchasing Agent Type
Sil'po supermarket	Fozzy Group (Ukraine)	290	51 (61)	Nation -wide	Direct/importer
Fozzy, discounter			2 (3)	1–Vyshneve, 1 – Odessa 1 – Borispil rajon	
Furshet, supermarket	LLC «Garantiya-Trade» (Ukraine)	276	30 (45)	Nation-wide	Direct/wholesaler/importer
PIK, Supermarket	CJSC KS Trading (Ukraine)	52	14 (17)	Dnepropetrovsk	Direct/wholesaler/importer
Velyka Kishenya, supermarket	Quiza Trade LLC (Ukraine)	136	17 (17)	6 – Kiev 1 - Obukhov	Direct/importer
Billa, supermarket	Billa-Ukraine (Reve Group Austria,)	85	8 (9)	3 – Kiev 2 – Kharkov 1 –Zaporizhe 2 – Dnipropetr	Direct/importer
Pakko, supermarkets	Pakko Group (Ukraine)	73	12 (16)	Western Ukraine	Direct/importer
Vopak, Cash & Carry			7		
Rainford, supermarket (8), Cash & carry (7)	Rainford Group (Ukraine)	30	15	Dnepropetrovsk/Krivoy Rog/Dneprodzerzhinsk	Direct/wholesaler/importer
Tavriya-V, supermarket (5), hypermarket (2)	Tavriya-V LLC (Ukraine)	70	7	Odessa/Illychevsk	Wholesaler/Direct/importer
Rorus trade center «Family», supermarket (6), trade center (2)	Pivdenny Bank (Ukraine)	40	6 (11)	Odessa, herson	Direct/wholesaler/importer

Perekrestok-Ukraine	Trade House Perekrestok CJSC (Russia)	30	5	3 – Kiev 1 – Brovary 1 – Cherkasy	Direct/importer /wholesaler
Target, supermarkets	Managing companies: Kibela, Ornatus, Apia (Ukraine)	20	3	Kharkov/Poltava/Sumy/Kupyansk	Wholesaler/direct
ECO-market, supermarket	«Bayadera» (Ukraine)	48	18	Kiev/Odessa/Sumy/Cherkassy	wholesaler/direct/importer
KIT, supermarket	Kit LLC. (Ukraine)	44	11 (14)	Zaporizhia region	wholesaler/direct/importer
West line, supermarket	Trade House West line (Ukraine)	20	3	Kiev	wholesaler/direct/importer
YUCI, supermarket	Private company “Aquamarine”	20**	3	Kharkov	wholesaler/direct/importer
Kraj, supermarket	Managing company “Bankomsvyaz” (Ukraine)	19**	3	Kiev	wholesaler/direct/importer
Intermarket, Cash&Carry	Private entrepreneur Roman Shlak	86***	2	Drogobych/Truskavets/Borislav	wholesaler/direct/importer
Arsen, supermarket			3		
Mega-Market, supermarket	Founder - Victor Yushkovskiy (Ukraine)	30	3	Kiev	Direct/importer
Class, supermarket	Managing company “Ukrtrade” LLC	15	3	Kharkov	wholesaler/direct/importer
Absolyut, supermarket	“Lia” LLC (Ukraine)	8-40**	4	Lugansk/Severodonetsk (Lugansk region)	wholesaler/direct/importer
Alen, supermarket	“Alen” LLC (Ukraine)	10**	5	Sevastopol	wholesaler/direct/importer
Natalka-Market, supermarket	“Natalka-Market” CJSC	10**	5	Odessa	wholesaler/direct/importer
Metro, discounter	Managing company	143	7	Kiev, Odessa Dnepropetriv	direct/importer

	«Metro Cash and Carry Ukraine» ("Metro AG" Germany)			sk, Donetsk, Harkiv	
Lvovkholod, Cash&Carry (1), supermarket (19)	TPK "Lvovkholod" (Ukraine)	76**	22	Lviv and Lviv Oblast	wholesaler/direct/importer

**Sources: Alliance Capital Management, Ukrainian Business newspaper, expert estimates, FAS/Kiev estimates;*
***Turnover for 2003*
*** Includes Barvinok grocery network

Kiosks and Gas Marts

The number of kiosks, which were popular trade outlets in early 1990's, have gradually diminished. A typical kiosk operates 24 hours a day and sells cheap alcohol, cigarettes and a limited number of food products. These outlets have limited floor space (usually 8-25 square meters) and a relatively limited stock list (100-200 items). Competition from larger private stores and supermarkets that offer lower prices have had an impact on kiosks' ability to compete. They survive at road intersections, bus stops, underground stations, near open-air markets, in suburb communities, and in rural areas. Kiosks offer a variety of cheap living essentials including food products. Lately, kiosks are becoming more specialized. For example, producers of meat and bakery products open kiosks to sell their own products near public transportation stations.

The number of modern gas stations continues to increase rapidly in Ukraine. According to official statistics 817 stores and kiosks, and 241 restaurants/cafes are located in gas stations as of April 2004. Approximately 10-15% of all Ukrainian gas stations have stores and sell packaged food products. This includes mainly soft drinks, cookies, chocolates, and various snacks. These 500-800 gas station stores comprise 1-2% of all food stores. These outlets have good prospects and may increase its share of retail sales in the future. Imported goods may be introduced to the market quickly and efficiently through these outlets.

Table 5. Kiosks and Gas Stations in Ukraine

	2000	2001	2002	2003
Number of kiosks (stalls)	25,361	24,116	22,469	21,499
Share of kiosks in convenience goods market, %	8	8	7	6
Number of gas stations	4,030	4,396	4,688	5,053

**Source: State Statistics Committee of Ukraine, Alliance Capital Management*

Convenience Stores (Self-Service Groceries)

The Fozzy Group is developing a network of Fora grocery stores (24 outlets in 2005). The trade and industrial group Rainford also has a network of 32 "convenience stores". Their competitor in the Dnipropetrivsk region, ATB Corporation, has a network of 69 groceries, although these stores are quite close to supermarkets in size. Usually, grocery stores are located in suburbs and offer a narrow product range. These new outlets are quickly replacing Soviet-style food stores. The average floor space of these stores is between 300 to 500 square meters and carry between 1,500 and 3,500 items. Grocery stores have become popular with pension-aged consumers who prefer to shop close to home. Retirees usually shop more frequently and make smaller purchases. Grocery stores also target consumers with below average incomes who regularly purchase goods daily. Many of these products have a short shelf life (bread, dairy products, fruits and vegetables, etc.). Market analysts note that convenience stores lack regular customers and their market share is small. Nevertheless grocery stores are very successful in small Ukrainian towns due to their convenience and lower investment costs.

Table 6. Largest Convenience Store Chains in Ukraine

Chain Name	Owner/managing company	Type of the company	Trade outlet type	Number of outlets	Location
Dnepryanka	Fozzy Group (Ukraine)	Direct / importer	Grocery / Discounter	13	Nation-wide
Fora				30	
ATB	Corporation «ATB» (Ukraine)	Direct/wholesaler/importer	Convenience store	111	Central Ukraine
Rainford	Trade and industrial group «Rainford»	Wholesaler / importer	Grocery / Convenience store	33	Central Ukraine and Simferopil
Target	Managing companies: Kibela, Ornatus, Apia (Ukraine)	Wholesaler/ direct	Groceries	11	Kharkov/Poltava/Sumy/Kupyansk
Intermarket Barvinok	Intermarket CJSC	Wholesaler/ direct/ importer	Grocery	17	Western Ukraine
Kurazh	Atlant LLC	Wholesaler/ direct/ importer	Grocery	4	Lugansk
Lvovkholod	TPK Lvovkholod (Ukraine)	Wholesaler/direct/importer	Grocery	54	Western Ukraine
Obzhora	Vyacheslav Sobolev (Ukraine)	Wholesaler/importer	Grocery	7	Donetsk city
Kopeyka	Vit Almi LLC (Ukraine)	Wholesaler/importer	Convenience store	5	4 – Odessa 1 – Izmail

**Sources: Alliance Capital Management, the Ukrainian weekly newspaper Business*

Traditional Outlets – Independent Grocery Stores and Open-Air Markets

Soviet-style stores with over-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these outlets are situated in central districts and sell food products to office employees during the workweek and to downtown dwellers. These stores are targeted and often taken over by companies that operate chain convenience stores. They are usually converted into modern self-service convenience stores. Other traditional grocery operations located in the suburbs of larger cities have survived but are likely to be driven out of business due to fierce competition from supermarkets and modern convenience stores. They continue to loose customers because of their limited product line, higher prices, inadequate service, and unprofessional staff. In order to survive, many offer round-the-clock service and lease floor space to sellers of industrial goods and services (e.g. photo labs). Some are located in distant small districts of large cities and small provincial towns where the construction of supermarket or modern chain convenience stores is economically unjustified.

Grocery stores, especially those operating 24 hours a day, can be of interest to potential U.S. exporters. They are good outlets for cheap food products that are manufactured abroad with a long shelf life: alcohol drinks, assorted snacks, confectionery products, meat goods, canned goods, goods for the elderly. The overwhelming majority of these stores (except small ones with 150-200 square meters floor space) procure products through wholesale companies. Smaller outlets procure products from Cash&Carry stores or from large wholesale open-air markets.

As reported by the State Statistics Committee of Ukraine, there were 2,891 open-air markets (bazaars) of all types in Ukraine in 2003, including 597 food-product open-air markets (69, or 10% less than in 2002). Twenty-six open-air markets that sell food products are located in Kiev. The largest number of food-product open-air markets in Ukraine is concentrated in the most populated regions. Mixed open-air markets (rynoks) trading in both foodstuffs and non-food goods prevail in Ukraine (55% of the total number of markets). Many consumers believe that food products sold in traditional open-air markets are cheaper than in supermarkets. Elderly consumers are also confident that products sold at open-air markets are of high quality.

In 2003, traditional outlets accounted for approximately 40-50% of trade in food products in Ukraine. For meat products this indicator reached 90%. These trade outlets are leading sellers of vegetables, fruits, meat, honey and dried fruits. Sales of dairy products, sunflower oil, and alcoholic drinks are gradually shifting from open-air markets to other outlets. Open-air markets provide poor customer service and lack storage equipment.

Improvement of open-air markets and services could result in increased sales. Some renovated open-air markets that are centrally located in larger cities were transformed into traditional elite supermarkets offering high-quality products. Bessarabskiy and Volodymyrskiy bazaars in Kiev are good examples. These open-air markets located in the historic part of the city are major shopping destinations for foreigners living in Kiev and the Ukrainian elite. These markets can be outlets for U.S. products such as specialty meat, seafood, semi-finished goods, microwaveable foods, mixtures of exotic dried fruits, nuts, elite confectionery goods, alcohol drinks, and traditional U.S. consumer food products, which ordinary supermarkets often find inconvenient to stock due to low demand.

Table 7. Number of Markets (bazaars) Offering Consumer Goods in Ukraine

	2000	**2001**	**2002**	**2003**
Total	2,514	2,715	2,863	2,891
Food products	634	772	666	597
Non-food products	511	608	725	708
Mixed	1,369	1,335	1,472	1,586

Source: State Statistics Committee of Ukraine

In the future, the number of traditional groceries, kiosks, and bazaars is expected to decrease, while the number of hypermarkets, supermarkets and self-service convenience stores will increase. Open-air markets with “vegetable-fruit” stalls will compete strongly with modern stores for retail sales of fruits and vegetables. However, the number of kiosks will likely diminish.

MARKET TRENDS

Private Label

Private labeling is not well developed and not used often in Ukraine. The largest Ukrainian supermarket chain - La Furshet was the first chain to establish a private label. The company already produces and packages more than 100 products under the La Furshet label. Fozzy group (Selpo branded products) and Metro C&C are also using private labels.

Modern Trade Promotion Methods

Chain stores regularly train their personnel and experiment with product layout in order to get more profits from one square meter of floor space. Many supplier companies use their own layout schemes (for example, "Hipp Gmbh" infant food producer). In store new product tasting and promotion campaigns are also quite frequent.

Many supermarkets are equipped with televisions that play commercials to promote products and services. Traditional poster and panel advertisements are also popular. The largest supermarkets issue their own advertising booklets and discount coupons. They also distribute these booklets to their customers through direct-mail distribution. In particular, one such edition published by La Furshet was devoted to products of German origin. These methods can be applied to U.S. product advertisement to encourage spontaneous purchases of U.S. products.

Market Power

In the early days (2000 – 2002) of Ukrainian retail stores, producers of food and agricultural products could dictate their terms on goods positioning, marketing and payments. Food products were viewed as anchor commodities attracting consumers to new supermarkets. The situation evolved rapidly and in 2003-2004 retail chains acquired a significant market share in big cities, attracting middle and high income consumers. Retailers quickly realized that control over the targeted audience gave them control over producers. Producers of hard liquor, vodka and dairy products were vocal about the new power of retailers, while many other supplies preferred to keep these problems quiet. Most problems were related to retailer recommended prices and price discounts, some problems related to product placement and associated fees. The product shelving fee in Ukrainian supermarkets remains quite low compared to Western chains, but it seems excessively high to many Ukrainian producers.

SECTION III. COMPETITION

The Government of Ukraine took a number of steps aimed at protecting domestic food producers in mid-1990's. This resulted in high import tariffs and the creation of a complicated system of sanitary and phytosanitary requirements. The economic crisis of 1998 abruptly decreased individual incomes and drove consumers to purchase more domestically produced products. These factors contributed to the robust development of the domestic food-products industry. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is increasing. Introduction of high import duties made legal imports of many foreign food products rather unprofitable, while the Ukrainian market remained open for food products originating from Russia and other CIS countries due to a Free Trade Agreement. Russian-made products were charged only the value added tax, which made their prices comparable to Ukrainian products. Many imports from the EU and U.S. could not compete with CIS products due to the lower price.

Table 8. Main Suppliers and Volumes of Product Imports to Ukraine

Output/ Import volumes	Main suppliers 2001	2002	2003	Advantages of supplying countries	Advantages and drawback of local producers
Poultry 2001: 67.1 ths. tons US$ 62.7 mn 2002: 72 ths. tons US$ 29.8 mn 2003: 100.7 ths. tons US$ 44 mn	1. USA 81% 2. Belgium 5% 3. Hungary 3% 4. Germany 3% 5. Netherlands 3%	Belgium 32% USA 28% Netherlands 16% Germany 9% Hungary 5%	Brazil 31% Belgium 18% Germany 12% Great Britain 8% Hungary 8% USA 4%	USA MDM and offal is much cheaper; Brazilians have price advantage in whole birds supplies	Production is expanding rapidly. Producers can supply chilled product; supply of domestic chicken is insufficient.
Pork 2001: 1.8 ths. tons US$ 2.5 mn 2002: 1.3 ths. tons US$ 1.3 mn 2003: 9.7 ths. tons US$ 6.5 mn	Austria 25% Poland 23% Belgium 15% Netherlands 10% Germany 8% Denmark 7% France 5% Canada 4% Hungary 2% USA 2%	Poland 44% France 18% Austria 11% Germany 10% Denmark 9% Belgium 4% Canada 2% Hungary 2% Netherlands 1% USA less than 1%	Poland 78% France 6% Germany 4% Austria 2% Hungary 1% Belgium 1% Denmark 1% USA less than 1%	Much lower prices, stable quality	Highly inefficient pork production in private households and in majority of industrial farms
Beef 2001: 1.4 ths. tons US$ 3.4 mn 2002: 0.4 ths. tons US$ 0.8 mn 2003: 0.4 ths. tons US$ 0.8 mn	Poland 64% Russia 31% Spain 1% Austria 1% Australia 1% USA less than 1%	Poland 65% Russia 18% Georgia 6% Hungary 6% USA 1%	Hungary 69% USA 1%	Much lower prices, stable quality	Highly inefficient beef production in private households and in industrial farms, lack of beef cattle and lack of high-quality beef
Fish and sea food 2001:	Norway 61% Estonia 17% Russia 8% Iceland 5%	Norway 64% Estonia 14%	Norway 58% Estonia 12%	Norway supplies a wide range of products and	Outdated cold storage facilities and fleet,

282.7 ths. tons US$ 80.3 mn 2002: 267.1 ths. tons US$ 76.5 mn 2003: 260.2 ths. tons US$ 95.2 mn	Mauritania 1% Great Britain 1% USA less than 1%	Iceland 5% Russia 3% Mauritania 2% Great Britain 1% Latvia 1% USA less than 1%	Iceland 5% Great Britain 3% Argentina 2% USA 2%	secures regular deliveries. Norwegian exporters use state promotion programs	outdated processing facilities, problems with securing quotas for fishing in international waters
Fresh vegetables 2001: 3.4 ths. tons US$ 1 mn 2002: 8.6 ths. tons US$ 2.7 mn 2003: 3.8 ths. tons US$ 1.1 mn	Turkey 58% Germany 17% Poland 5% Spain 3% Moldova 2% Hungary 2% Austria 2% Netherlands 2% Slovakia 1% Israel 1% Bulgaria 1% USA less than 1%	Germany 60% Turkey 23% Netherlands 5% Egypt 4% Moldova 2% Spain 2% Poland 1% Georgia 1% USA less than 1%	Uzbekistan 31% Turkey 20% Russia 9% Spain 9% Georgia 8% Kazakhstan 5% Netherlands 4% Egypt 3% China 2% Kyrgyzstan 2% Tajikistan 2% Belarus 1% Azerbaijan 1% Poland 1% Turkmenistan 1% USA less than 1%	High stable quality of vegetables produced in Western European countries, low prices for products originating from the CIS states	A lot of people grow vegetables on their household plots; Bigger farms lack modern storage and processing facilities; supplies produce to the retail trade networks is complicated
Frozen vegetables 2001: 3.9 ths. tons US$ 2.5 mn 2002: 5.1 ths. tons US$ 3.3 mn 2003: 1.5 ths. tons US$ 1.3 mn	Netherlands 68% Poland 21% Belgium 5% Hungary 2% Denmark 1% Czech Republic 1% Germany 1% USA less than 1%	Poland 76% Netherlands 16% Belgium 4% Denmark 2% USA less than 1%	Poland 70% Belgium 22% Netherlands 2% Russia 2% Canada 1% Hungary 1% France 1% Spain 1%	Polish companies dominate the market due to high quality, recognition of trademarks and distribution system	Inefficient production; growing demand in large cities
Fresh fruits 2001: 161.9 ths. tons US$ 46.8 mn	Turkey 36% Ecuador 29% Greece 7% Georgia 6% Spain 3% Cyprus 3%	Turkey 35% Ecuador 32% Georgia 6% Greece 4% Egypt 4%	Ecuador 32% Turkey 31% Georgia 7% Egypt 5% South	Countries of South America, Spain, Georgia, and Azerbaijan	Significant volume of smuggling especially from Poland and CIS

2002: 213.5 ths. tons US$ 48.8 mn 2003: 239.0 ths. tons US$ 56.8 mn	Israel 2% Azerbaijan 2% Egypt 2% Costa Rica 2% Honduras 2% Argentina 2% South African Republic 1% USA less than 1%	Colombia 3% Argentina 3% Azerbaijan 3% Spain 2% Cyprus 2% Israel 2% South African Republic 1% Honduras 1% Panama 1% USA less than 1%	African Republic 4% Argentina 4% Azerbaijan 3% Israel 2% Spain 2% Costa Rica 2% Greece 2% Colombia 1% Honduras 1% Guatemala 1% USA less than 1%	supply citrus fruits at a good price/quality ratio	states as well as lack of storage facilities; low cost of local production
Dried fruits 2001: 14.1 ths. tons US$ 6.3 mn 2002: 17.5 ths. tons US$ 7.7 mn 2003: 20.3 ths. tons US$ 9.5 mn	Turkey 45% Iran 29% Germany 8% Poland 4% Italy 4% Uzbekistan 3% Afghanistan 2% India 1% USA less than 1%	Iran 54% Turkey 32% Uzbekistan 6% Afghanistan 1% USA 1%	Iran 53% Turkey 36% Uzbekistan 4% USA 2%	Low prices, high quality, long established trade relations	Lack of climatic control for production of many popular products; private households produce dried apples, pears and prunes
Tree nuts (peanuts excluded) 2001: 4.2 ths. tons US$ 8.8 mn 2002: 3.5 ths. tons US$ 6.4 mn 2003: 3.9 ths. tons US$ 6.0 mn	Turkey 39% Azerbaijan 17% Germany 15% USA 5%	Turkey 63% Azerbaijan 20% Iran 6% Georgia 4% USA 3%	Turkey 38% Azerbaijan 30% Iran 22% USA 4%	Turkey mainly supplies hazelnut and pistachios at low prices, Azerbaijan – hazelnut, and the USA - almonds	Lack of large-scale industrial production of nuts; Intensively developing confectionery industry
Canned vegetables and fruits 2001: 5.7 ths. tons	Hungary 25% Spain 17% Poland 9% Azerbaijan 8% Germany 6% Russia 4%	Moldova 23% Hungary 18% Uzbekistan 9%	Hungary 27% Moldova 27% Russia 13% Uzbekistan	Well established trade relations and well known trademarks;	Local producers quickly updated facilities; availability of

US$ 4.8 mn 2002: 1.4 ths. tons US$ 1.3 mn 2003: 0.6 ths. tons US$ 0.7 mn	Italy 4% Thailand 4% Moldova 4% Uzbekistan 3% Netherlands 2% USA 1%	Germany 7% Russia 6% Armenia 4% Netherlands 3% Bulgaria 3% Spain 2% Turkey 2% France 1% USA 1%	8% Armenia 6% Azerbaijan 5% Spain 3% Austria 3% Germany 2% USA 2%	abundance of smuggled imports; Hungary (vegetables) and Spain (olives) dominate the market	cheap raw materials, traditional local brands
Fruit juices and concentrates 2001: 19.2 ths. tons US$ 15.9 mn 2002: 25.5 ths. tons US$ 22.1 mn 2003: 31.4 ths. tons US$ 31.4 mn	Netherlands 27% Russia 21% Brazil 15% Israel 11% Moldova 7% Thailand 4% Romania 3% Germany 2% India 2% Azerbaijan 1% Hungary 1% Slovenia 1% Uzbekistan 1% Georgia 1% USA less than 1%	Netherlands 27% Russia 23% Brazil 15% Israel 12% Moldova 4% Thailand 3% India 3% Germany 2% Ecuador 2% Azerbaijan 1% Hungary 1% China 1% Uzbekistan 1% USA less than 1%	Netherlands 28% Russia 17% Brazil 15% Israel 10% Ecuador 4% Moldova 4% Azerbaijan 4% Thailand 3% Romania 2% India 2% Poland 2% Germany 2% China 1% Hungary 1% Uzbekistan 1% Kenia1% USA less than 1%	Western countries supply products of very high quality. Russian products are of low price and good quality	Local production of apple concentrate, tomato paste, and berries partially satisfy domestic demand; high dependence on imported concentrates; High competition with ready-made Russian juice; growing demand for juices; healthy drink image of juice
Rice 2001: 75.9 ths. tons US$ 15.4 mn 2002: 78.3 ths. tons US$ 14.1 mn 2003: 85.8 ths. tons US$ 19.7 mn	Egypt 45% Vietnam 31% Spain 6% China 5% India 4% Russia 3% Ecuador 3% Thailand 2% USA less than 1%	Myanmar 26% India 26% Egypt 18% Vietnam 17% China 4% Russia 2% Greece 2% Spain 2% Pakistan 2% Thailand 1% USA less	China 40% Vietnam 20% India 17% USA 9%	Vietnam and China are competitive due to low prices. India and the USA supply high quality; meanwhile high prices position American rice in premium segment	Local industry satisfies only half of domestic consumption; high product price and low quality, stable demand

		than 1%			
Beer 2001: 10.3 ths. tons US$ 4.0 mn 2002: 17.5 ths. tons US$ 18.8 mn 2003: 18.5 ths. tons US$ 23.3 mn	Russia 93% Germany 2% Netherlands 1% Ireland 1%	Russia 92% Hungary 3% Germany 1% Netherlands 1%	Russia 92% Estonia 5%	Broad assortment of Russian-made reasonably priced beer (zero import duty due to FTA).	Steady demand for locally produced product, modern production facilities, broad assortment, good quality, and low prices.
Wine 2001: 19.7 ths. tons US$ 18.6 mn 2002: 17.5 ths. tons US$ 18.8 mn 2003: 18.5 ths. tons US$ 23.3 mn	Moldova 68% Hungary 15% Georgia 7% Macedonia 2% France 2% Italy 2% Bulgaria 1% Romania 1% USA <1%	Moldova 67% Hungary 12% Georgia 6% Macedonia 5% Italy 5% France 2% USA <1%	Moldova 66% Georgia 11% Hungary 7% Italy 5% Macedonia 4% Slovakia 3% France 2% USA <1%	CIS origin wine is reasonably priced and has traditional brands. Western Wines occupy the upper segment and perceived as high quality.	Steady demand for locally produced wines; production experience; wide assortment and low prices; poor positioning of high quality vintage wines; traditional preference to sweeter wines.
Liqueurs, other hard alcohol drinks 2001: 2.8 ths. tons US$ 10.7 mn 2002: 3.0 ths. tons US$ 11.9 mn 2003: 34.6 ths. tons US$ 69.2 mn	France 29% Moldova 18% Netherlands 11% Armenia 9% Great Britain 8% USA 5% Georgia 3% Finland 3%	Moldova 33% Armenia 13% Georgia 12% Russia 10% Great Britain 8% France 8% Bulgaria 5% Finland 3% Estonia 2% USA <1%	France 64% Spain 16% Moldova 5% Georgia 5% Bulgaria 3% USA <1%	Good quality, reasonable prices for traditional Armenian, Georgian and Bulgarian cognacs; High demand for non-traditional beverages (tequila, whisky, rum, and gin).	High quality and wide assortment of locally manufactured alcohol drinks; dependence on imported cognac spirits; black market for hard alcoholic drinks; low quality in low price segment product.
Pet food	Russia 30%	Russia 28%	Russia 27%	Exports of	Traditionally

2001: 38.6 ths. tons US$ 22.3 mn 2002: 48.8 ths. tons US$ 30.2 mn 2003: 53.2 ths. tons US$ 37.6 mn	Germany 17% Hungary 16% Poland 10% Czech Republic 5% Netherlands 5% USA 5%	Poland 19% Hungary 16% Germany 13% USA 5%	Poland 23% Hungary 15% USA 7%	well-known pet food trademarks from Russia dominate the low segment. U.S. brands are perceived as high quality.	high number of home pets, large market potential; low demand for industrially produced pet food.

Sources: State Statistics Committee of Ukraine, DZI informational bases, expert estimates

SECTION IV. BEST PRODUCT PROSPECTS

Category A: Products With Good Sales Potential

Product	2003 Market volume	2003 Import volume	Average growth of imports over the past three years	Import taxes	Main factors hindering import development	Attractiveness of the market for USA suppliers
Poultry	300 ths. tons	100.7 ths. tons	24%	30% but no less than EUR 1.5 per 1 kg; EUR 0.7 per 1 kg of chicken offal and cuts; 10% but no less than EUR 0.4 per 1 kg for whole birds + 20%VATi +0.2% for customs services	High customs duty, competition from Brazil, high production rates by local manufacturers, low-quality image of imported frozen product	US poultry in market for a long time. Low prices attract a lot of consumers. Deficit of local produce, high prices for European and low quality of Brazilian MDM make American product very attractive for processors
Beef	250 ths. tons	0.4 ths. tons	Less than 1%	EUR 0.6 per 1 kg of meat and 20% per 1 kilogram of beef trimming +20% VAT; 0.2% for customs	High import duties, smuggled imports from Poland, Germany, and Argentina; lack of regular deliveries of beef from USA;	Cattle numbers decreasing; shortage of beef; abrupt increase of domestic prices; vacant niche of fresh meat delicacies (steak, etc.); deliveries of high

				services	deficit of modern storage facilities	quality meat for HoReCa
Pork	90 ths. tons	9.7 ths. tons	674%	EUR 0.6 per 1 kg + 20% VAT + 0.2% for customs services	High import duties; gradual recovery of local output; competition from Brazil and Poland; smuggling; lack of modern storage facilities	Modern domestic production growth; shortage of pork in the market; abrupt price increase; reduction of EU pork imports due to growing prices; high demand from the processing industry; vacant niche market for fresh meat delicacies; growing HoReCa sector
Fish and sea food	510 ths. tons	260.2 ths. tons	Less than 1%	0 – 10% (shellfish - EUR 1 per 1 kg, clams EUR 0.2 – 1 per 1 kg) +20% + 0.2% for customs services	Smuggling; tough competition with Norwegian product; shortage of suitable trade equipment at retail outlets; lack of modern cold storage facilities	Skyrocketing demand from processing industry, HoReCa and population demand reasonably priced mid-quality product
Dried fruits and almonds	103.5 ths. tons	24.2	15%	0%- EUR 0.2 + 20% + 0.2% for customs services	Sharp competition from Iran and Turkey; flood of low quality product from Iran, Uzbekistan, and Afghanistan	Intensive development of confectionery industry; growing retail sales; quality advantage of U.S. raisins
Canned fruits and vegetables	413 ths. tons	0.6 ths. tons	Less than 1%	EUR 1 per 1 gross kg +20% VAT + 0.2% for customs services	Large volume of good quality product on the market from Hungary and Poland; smuggling; abundance of cheap Ukrainian	High demand for canned output and perspective for further future growth; gradual reduction of home-made cans; emerging

					product; tradition for home-made canned fruits and vegetables	market for high-quality canned product
Rice	170 ths. tons	85.8 ths. tons	6%	10% but no less than EUR 0.03 per 1 kg	Availability of locally produced product; large imports of cheap Vietnamese rice; high competition from other cereals	Market for high-quality American rice as premium class product; emerging niche markets for parboiled rice, brown rice, wild rice, rice with different additives, etc.
Alcohol drinks	224.3 mn dal	7.9 mn dal	93%	EUR 0.5 per 1 liter of beer, EUR 2-3 per 1 liter of wine, EUR 7.5 per 1 liter of 100% other alcohol drinks + 20% + 0.2% for customs services + excise tax (UAH 6 -17 per 1 liter of 100% spirit)	High import duties; competition with Ukrainian-made spirits and drinks produced in CIS states	Demand for exotic drinks (whiskey, gin, rum). Government policy is directed at increase in consumption of less strong drinks (wine and beer) and encouragement of these goods, stock expansion on the market
Pet food	100 ths. tons	53.2 ths. tons	18%	EURO 0.05 per 1 kg + 20% VAT + 0.2% for customs services	Abundance of Russian-made product (mostly Mars and Nestle), smuggling, developing local brands, lack of tradition for industrial-made pet food use	Large number of home pets, increase in incomes; High market potential; low import duty
Fresh fruits	2 mn tons	239 ths. tons	22%	EUR 0.3 – 0.6 per 1kg (20% but no less than EUR 0.2 per 1 kg of	High import duties; tough competition with cheap Eastern Europe and CIS	Growing demand for premium-quality product in winter months from

				bananas or EUR 0.1 per 1 kg of citrus fruits)	countries produce; availability of inexpensive local produce; lack of modern storage facilities	chain stores (pears, grapes)

Category B: Products Not Present in Large Quantities but with Good Sales Potential

- Premium-class food products: meat specialties (meat for further cooking – steaks, fillet, etc.) smoked meat, cheese;
- Exotic seafood, ready-made high quality canned fish (tuna etc.);
- Cereals: muesli, instant porridge, ready-made rice, different assortments of ready-made packaged rice;
- Food for diabetics;
- Specialized infant food, canned vegetables and infant food;
- Exotic drinks/juices (from exotic fruits, energy drinks, vitamin drinks, root beer), drink concentrate, traditional drinks with different additives (tea/hot chocolate with additives);
- Semi-prepared goods, ready-made frozen food, microwaveable food;
- Packaged food ingredients of high quality for cooking (brown sugar, sugar powder, high-quality spices, etc.)
- High-quality beer snacks (a rapid increase in beer consumption over the past several years and expected beer consumption growth in the future).
- An aging population creates a niche market for this category of costumers. Presently, low incomes make this market profitable only in the future.

Category C: Products Not Present Because of Significant Barriers (Barriers Indicated)

- Mid range ready-to-eat meat products (smoked meat, sausages, hotdogs) – high import duties (30%, but not less than 1.2 EUR/kg + 20% VAT) – high competition of similar Ukrainian products;
- Inexpensive imported chocolates - high import duties (0.5 EUR/kg + 20% VAT) – high competition from similar Ukrainian products;

SECTION V. ATTACHMENTS

Product Structure of Retail Trade Sales

	1995	2000	2001	2002	2003	1995	2000	2001	2002	2003
	UAH million*					%				
All commodities	11, 964	28,757	34,417	39,690	49,993	100	100	100	100	100
Foodstuffs	7,546.5	14,930	17,337	19,068	22,806	63.1	51.9	50.4	48	45.6
Meat and products	1,198	1,788	2,114	2,253	2,735	10	6.2	6.1	5.6	5.5
Meat (including poultry)	420.6	659.6	862.4	960.8	1,148	3.5	2.3	2.5	2.4	2.3
Sausages	728.8	1,073	1,184	1,209	1,474	6.1	3.7	3.4	3	3
Meat cans	48.6	55.2	67.8	83	112	0.4	0.2	0.2	0.2	0.2
Fish and sea food	244.6	453.3	556.6	640	813	2.1	1.5	1.6	1.6	1.6
fish	126.4	236.6	296.3	360	469	1.1	0.8	0.9	0.9	0.9
herring	58	97.3	111.1	108	138	0.5	0.3	0.3	0.3	0.3
Fish cans	60.2	119.4	149.2	171	205	0.5	0.4	0.4	0.4	0.4
Vegetable and fruit cans	118.8	160.9	205.7	270	368	1	0.6	0.6	0.7	0.7
fats	477.9	543.3	644.3	706	809	4	1.9	1.9	1.8	1.6
butter	293.7	242	258.5	262	281	2.4	0.8	0.8	0.7	0.6
oil	70.2	114.2	148.8	168	215	0.6	0.4	0.4	0.4	0.4
Other fats	114	187.1	237	275	311	1	0.7	0.7	0.7	0.6
Milk and dairy	352.9	626.6	745.1	857	1,044	2.9	2.2	2.2	2.2	2.1
Cheese and brinsen	116.5	187.8	240.5	285	403	1	0.7	0.7	0.7	0.8
eggs	136.5	231.7	289.8	338	369	1.1	0.8	0.9	0.9	0.7
sugar	261.9	253.9	251.2	279	315	2.2	0.9	0.7	0.7	0.6
confectionery	561.1	1,231	1,444	1,622	1,797	4.7	4.3	4.2	4.1	3.6
tea	35.9	100.3	113.4	142	185	0.3	0.3	0.3	0.3	0.4
coffee	24.4	129.1	165.4	221	308	0.2	0.4	0.5	0.5	0.6
salt	20	28.5	27.6	27	31	0.2	0.1	0.1	0.1	0.1
Bread and bakery	1,330.2	1,898	1,769	1,457	1,466	11.1	6.6	5.2	3.7	2.9
Flour, cereals, and pasta	357	587.6	532.8	529	686	3	2	1.5	1.3	1.4
flour	118.7	257.1	217.1	198	257	1	0.9	0.6	0.5	0.5
Cereals and beans	122.5	180.7	173.7	191	241	1	0.6	0.5	0.5	0.5
pasta	115.8	149.8	142	140	187	1	0.5	0.4	0.3	0.4
potato	71.2	72.4	80.8	109	152	0.6	0.3	0.2	0.3	0.3
vegetables	174.4	166.3	185.6	220	286	1.5	0.6	0.5	0.5	0.6
Fruits, berries, and melons	104.7	143.2	166.7	191.9	302	0.9	0.5	0.5	0.5	0.6
Tobacco articles	111.6	1111	1,501	1,851	2,457	0.9	3.9	4.4	4.7	4.9
Other foodstuffs	1,595	4,613	5,515	6,145	7,256	13.3	16	16	15.5	14.6

**Exchange rate UAH 5.3 - $1*

Source: State Statistics Committee of Ukraine

Structure of Total Household Expenditures
(in average per month as calculated for one household)

	2000			2002			2003		
	All households	Including those residing in		All households	Including those residing in		All households	Including those residing in	
		towns	Rural area		towns	Rural area		towns	Rural area
All expenses, UAH	**541.3**	**547.3**	**528.1**	**658.3**	**677.6**	**615.8**	**736.8**	**775.8**	**653.5**
%									
Total consumer expenditures	93.3	93.8	92.5	92.8	93.8	90.4	93.3	94.3	90.6
Foodstuffs (including eating out, alcohol, and tobacco items)	67.9	65.3	74.1	62.8	60.9	67.7	62.7	60.4	68.2
Non-foodstuffs and services	25.4	28.5	18.4	30	32.9	22.7	30.6	33.9	22.4
Payment for housing, utilities and services	6.9	8.1	4.2	9.2	10.6	5.8	8.7	9.9	5.6
Benefits and subsidies	2.3	2.5	1.8	1.9	2.1	1.2	1.3	1.4	0.9
Non-foodstuff total expenditures	6.7	6.2	7.5	7.2	6.2	9.6	6.7	5.7	9.4

Source: Households Income Survey, State Statistics Committee of Ukraine

Structure of Total Household Expenditures in 2003 (total per capita expenditures)
(in average per month as calculated for one household)

	All house holds	With average per capita expenditures per month, UAH										
		Up to 60.0	60.1 – 90.0	90.1– 120.0	120.1 – 150.0	150.1 – 180.0	180.1 – 210.0	210.1 – 240.0	240.1 – 270.0	270.1 – 300.0	300.1 – 360.0	More than 360.0
All expenses, UAH	736,8	173.5	317	409	461.8	525.1	564.5	609.2	659.8	693.9	758.7	1,102.4
%												
Total consumer expenditures	93,3	97.0	97.6	96.8	97	96.7	95.9	95.3	95.4	94.8	94.4	89.9
Foodstuffs ()	62,7	81.4	76.6	73.5	71.3	70.8	67.5	65.9	65.8	65.1	63.2	56.6
Non-foodstuffs and services	30,6	15.6	21.0	23.3	25.7	25.9	28.4	29.4	29.6	29.7	31.2	33.3
Housing, utilities and services	8,7	5.1	9.3	9.5	10	9.6	10.5	10.2	9.6	9.2	8.9	7.2
-Incl. Benefits and subsidies	1,3	0.2	0.8	1.2	1.5	1.3	1.8	1.5	1.5	1.4	1.5	1.0
-Incl. Non-foodstuff total expenditures	6,7	3.0	2.4	3.2	3	3.3	4.1	4.7	4.6	5.2	5.6	10.1

Source: Households Income Survey, State Statistics Committee of Ukraine

Structure of Household Expenditures in 2003 (Basic Consumer Expenditures)
(in average per month as calculated for one household)

	Total expenditures			Currency expenditures		
	All households	Including those residing in		All households	Including those residing in	
		towns	Rural area		towns	Rural area
Total expenditures, UAH	**736.8**	**775.8**	**653.5**	**621.9**	**697.3**	**461**
%						
Consumer expenditures	93.3	94.3	90.6	91.6	94.7	81.7
foodstuffs	58.6	55.7	65.6	53.4	55	48.1
alcohol	1.6	1.8	1.1	1.8	1.9	1.4
tobacco	1.2	1.3	1	1.4	1.5	1.4
Clothes and shoes	5.3	5.6	4.7	6.3	6.2	6.6
Housing, water, electric energy, gas, and other kinds of fuel	10.4	11.2	8.2	10.7	10.9	10.3
Furniture, furnishings, household appliances and daily housing services	2	2.2	1.6	2.4	2.4	2.3
Health protection	2.8	3	2.5	2.9	2.8	3.4
transportation	3.3	3.7	2.2	3.5	3.6	2.9
communications	1.5	1.8	0.6	1.6	1.9	0.8
Leisure time and culture	2.3	2.8	0.9	2.4	2.8	1.2
education	1.1	1.3	0.6	1.3	1.4	0.9
HoReCa	1.4	1.8	0.5	1.7	2	0.8
Other goods and services	1.8	2.1	1.1	2.2	2.3	1.6

Source: Households Income Survey, State Statistics Committee of Ukraine

Foodstuffs Consumption (per capita per year, kg)

	1990	1995	2000	2001	2002	2003
Meat and products (as calculated by meat including lard and by-products)	68	39	33	31	33	35
Dairy and milk (as calculated by milk)	373	244	199	205	225	226
Eggs, pieces	272	171	166	180	209	214
Fish and seafood	17.5	3.6	8.4	11	11.9	12
Sugar	50	32	37	40	36	36
Oil	11.6	8.2	9.4	10	10.7	11.3
Potato	131	124	135	140	133	138
Vegetables and melons	102	97	102	105	108	114
Berries, fruits, and grape (without processing for wine)	47	33	29	26	29	33
Bread and bakery (bread, pasta calculated by flour, flour, cereals, beans)	141	128	125	130	131	125

Source: Households Income Survey, State Statistics Committee of Ukraine

Foodstuffs Consumption by Household (average per month as calculated for one person, kg)

	2000			2002			2003		
	All households	Including those residing in		All households	Including those residing in		All households	Including those residing in	
		towns	Rural area		towns	Rural area		towns	Rural area
Meat and products	3.3	3.3	3.2	3.3	3.5	2.8	3.9	4.2	3.2
Milk and dairy	17.1	15.4	20.5	18.8	17.6	21.2	19.1	18.6	20.1
Eggs, pieces	18	20	16	17	18	17	17	19	15
Fish and seafood	1.3	1.4	1.1	1.4	1.5	1.2	1.4	1.5	1.1
Sugar	3.5	3.5	3.5	3.1	3.1	3.1	3.2	3.3	3.2
Oil and other vegetable fats	1.8	1.9	1.6	2	2	1.8	2	2.2	1.8
Potato	10.4	9	13.1	10.3	8.6	13.7	9.9	8.2	13.2
Vegetables and melons	9.5	9.7	9.3	9.5	9.3	9.9	9	9	8.9
Fruits, berries, nuts, grape	2.5	2.7	1.9	2.4	2.6	1.8	2.5	3	1.8
Bread and bakery	10.7	10.5	11.2	10.7	10.4	11.3	10.3	9.8	11.2

Source: Households Income Survey, State Statistics Committee of Ukraine

Foodstuffs Consumption by Household in 2003 (total per capita expenditure)
(in average per month as calculated for one person, kg)

	All households	With average per capita total expenditures per month, kg										
		Up to 60.0	60.1 – 90.0	90.1– 120.0	120.1 – 150.0	150.1 – 180.0	180.1 – 210.0	210.1 – 240.0	240.1 – 270.0	270.1 – 300.0	300.1 – 360.0	More than 360.0
Meat and products	3.9	0.4	1	1.4	1.9	2.5	2.8	3.3	3.8	4.1	4.7	6.5
Milk and dairy	19.1	3.3	7.2	10.7	12	14.8	15.9	17.1	19	20.5	22.7	27.4
Eggs, pieces	17	2	9	11	12	15	16	17	18	18	20	22
Fish and seafood	1.4	0.4	0.4	0.5	0.7	0.9	1	1.2	1.4	1.5	1.7	2.4
Sugar	3.2	0.9	1.2	1.7	2.1	2.4	2.7	3	3.3	3.6	3.8	4.6
Oil and other vegetable fats	2	0.8	1	1.2	1.4	1.6	1.8	1.9	2.1	2.2	2.4	2.8
Potato	9.9	4.9	7.5	8.5	8.9	9.5	9.9	9.6	10	10.8	10.5	10.6
Vegetables and melons	9	2.4	3.9	4.9	5.8	6.5	7.3	7.8	8.9	9.5	10.5	13.2
Fruits, berries, nuts, grape	2.5	0.5	0.7	0.9	1	1.5	1.7	2	2.4	2.7	3.1	4.7
Bread and bakery	10.3	5.9	6.5	7.5	8.4	9.1	9.3	10	10.6	10.9	11.5	12.4

Source: Households Income Survey, State Statistics Committee of Ukraine